

**Supporting Statement for the
Report of Assets and Liabilities of
U.S. Branches and Agencies of Foreign Banks
(FFIEC 002; OMB No. 7100-0032)**

Summary

The Board of Governors of the Federal Reserve System ("the Board"), on behalf of the federal banking agencies (the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Board), requests approval from the Office of Management and Budget (OMB) to revise, without extension, the Federal Financial Institutions Examinations Council (FFIEC) Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032). This report is required of U.S. branches and agencies of foreign banks and is filed on a quarterly basis. Attached is a copy of the current reporting form and instructions.

All U.S. branches and agencies of foreign banks are required to file detailed schedules of assets and liabilities in the form of a condition report and a variety of supporting schedules. This information is used to fulfill the supervisory and regulatory requirements of the International Banking Act of 1978. The current annual burden for the FFIEC 002 is estimated to be 26,550 hours.

This report is mandated by the FFIEC for collection by the three federal banking regulatory agencies in accordance with procedures under Title 10 of the Financial Institutions Regulatory Act. The Federal Reserve has been designated by the federal banking agencies as the agency responsible for the data collection and processing of this report. The entire reporting burden is covered by this submission and is assumed by the Federal Reserve. The OCC and the FDIC will not be making separate submissions to OMB.

The agencies propose to implement several revisions to the existing reporting requirements of the FFIEC 002. The proposed revisions would improve the agencies' ability to analyze the risks and activities of branches and agencies and achieve consistency with the Reports of Condition and Income (Call Report) (FFIEC 031-041; OMB No. 7100-0036) filed by insured commercial banks and FDIC-supervised savings banks, including certain proposed changes to the Call Report. The proposed revisions to the FFIEC 002 would take effect as of the March 31, 2003, reporting date.

Background and Justification

The Board, the OCC, and the FDIC use the FFIEC 002 report for supervisory and regulatory purposes. The Board also uses the data for monetary policy purposes. The report is similar to the Call Report required of all U.S. commercial banks, although the FFIEC 002 collects fewer items of information.

The International Banking Act of 1978 (the Act) expresses the intent of Congress to equalize the supervisory and regulatory treatment between foreign and domestic-owned financial institutions operating in the United States, which specifies that foreign banks' branches and agencies in the United States are to be subject to the supervisory authority of the U.S. federal banking agencies and that responsibility for federal supervision is to be shared among the OCC, the FDIC, and the Federal Reserve.

As one step in carrying out the supervisory and regulatory responsibilities imposed by the Act, the three agencies instituted the FFIEC 002 report in June 1980. The FFIEC 002 replaced a Federal Reserve report, FR 886a that had been collected from U.S. branches and agencies since 1972. The FFIEC 002 report was revised extensively effective December 1985, when several schedules were deleted, items were added to collect separate data on International Banking Facilities (IBFs), and schedules were added covering quarterly averages (Schedule K), commitments and contingencies (Schedule L), and past due loans (Schedule N). The report also was revised to conform as closely as possible to the quarterly Call Report for domestic banks.

In addition to its supervisory and regulatory uses, the FFIEC 002 report provides information needed for monetary and financial analysis essential for the conduct of monetary policy. The branches and agencies of foreign banks are a large and growing part of the U.S. banking system, with assets exceeding \$1 trillion as of September 30, 2002. The FFIEC 002 provides the benchmark data needed to derive adequate weekly estimates from the sample report titled Weekly Report of Assets and Liabilities of Large U.S. Agencies and Branches of Foreign Banks (FR 2069; OMB No. 7100-0030). The weekly estimates are used to analyze credit developments and sources and uses of funds for the banking sector and to assess current financial developments within the entire U.S. banking system. They help to interpret the bank credit and deposit information needed for both monetary policy decisions and for gauging the response to those decisions.

Effective with the June 30, 2001, reporting date revisions were made to conform the FFIEC 002¹ with eliminations and reductions in detail to the Call Report filed by insured commercial banks and FDIC-supervised savings banks. The federal banking agencies expanded the information collected in the FFIEC 002 report to facilitate more effective analysis of the impact of securitization and asset sale activities on credit exposures. The agencies introduced a separate new schedule (Schedule S) that comprehensively captures information related to securitization and asset sale activities. In addition, the FFIEC and the federal banking agencies had previously granted confidential treatment to the information branches and agencies report in Schedule N of the FFIEC 002 report on the amounts of their loans, leases, and other assets that are past due, in nonaccrual status, or restructured and in compliance with modified terms. In order to give the public, including branches and agencies, more complete information on the level of and trends in asset quality at individual institutions, the federal banking agencies eliminated the confidential treatment provided for this information beginning with the amounts reported as of June 30, 2001.

Effective with the December 31, 2001, reporting date the agencies changed the manner in which branches and agencies report information on their trust activities. Branches and agencies that previously filed the Annual Report of Trust Assets (FFIEC 001) would instead file a new Fiduciary and Related Services Schedule (Fiduciary Schedule) (Schedule T) as part of the FFIEC

¹ See *Federal Register* notice published May 4, 2001 (66 FR 22556)

002. Branches and agencies that have fiduciary or related activity are required to report certain trust information in Schedule T annually.

Description of Information Collection

The reporting panel for the FFIEC 002 includes all U.S. branches and agencies (including their IBFs) of foreign banks, whether federally licensed or state chartered, insured or uninsured. Each branch or agency of a particular foreign bank must submit a separate quarterly report, with one exception. A foreign bank may submit a request to the appropriate Federal Reserve Bank to consolidate reporting for two or more offices, provided that (1) the offices are located in the same city or metropolitan area, the same state, and the same Federal Reserve District, and (2) the consolidated report does not consolidate branches with agencies or insured branches with uninsured branches.

As of September 30, 2002, the reporting panel consisted of 295 U.S. branches and agencies. As new U.S. branches and agencies of foreign banks come into existence, they are added to the reporting panel. Respondents are required to submit the report quarterly to the appropriate Federal Reserve Bank. The Federal Reserve System collects, processes, and edits the data on behalf of all three federal banking regulatory agencies.

While conforming generally to the U.S. commercial bank Call Report the format of the FFIEC 002 has been designed to reflect the portfolio patterns of branches and agencies of foreign banks and their institutional character. There is more disaggregated reporting of foreign and domestic customers than is required in the Call Report for domestic banks, and Schedule M of the FFIEC 002 provides information on claims on, and liabilities to, the foreign bank head office and other related institutions of the U.S. branches and agencies.

The FFIEC 002 consists of a summary schedule of assets and liabilities (Schedule RAL) and several supporting schedules. Information is required in each schedule on balances of the entire reporting institution, and for items on the schedules for cash (Schedule A), loans (Schedule C), and deposits (Schedule E), separate detail on balances of IBFs. Unlike the Call Report for domestic banks, the FFIEC 002 collects no income data.

The Federal Reserve offers an electronic data transmission facility through which respondents to various reports collected by the Federal Reserve may submit information. The facility was offered to U.S. branches and agencies of foreign banks for electronic entry of the FFIEC 002 beginning in the second quarter of 1990 and continues to be available.

Proposed Revisions

Schedule RAL—Assets and Liabilities

1. Splitting item 1.c(2), “Mortgage-backed securities,” into separate items 1.c(2)a “Issued or guaranteed by U.S. Government agencies” and 1.(c).2b “Other.” The proposed breakdown would provide information on the composition of mortgage-backed securities held by branches and agencies, which will enter into the derivation of weekly bank credit data used by the Board for monetary policy purposes.
2. Splitting item 1.d., “Federal funds sold and securities purchased under agreements to resell” into separate items 1.d.(1), “Federal funds sold,” 1.d.(1)a, “With depository institutions in the U.S.,” 1.d.(1)b, “With others,” and 1.d.(2), “Securities purchased under agreements to resell,” 1.d.(2)a, “With depository institutions in the U.S.,” 1.d.(2)b, “With others.” The proposed breakdown would provide greater insight into the liquidity of branches and agencies. These institutions actively participate and often hold large positions in the federal funds and repurchase agreement market. The separation would also achieve consistency with the existing Reports of Condition and Income (Call Report) because insured commercial banks and FDIC-supervised savings banks currently report federal funds sold separately from securities purchased under agreements to resell.
3. Splitting item 4.b., “Federal funds purchased and securities sold under agreements to repurchase” into separate items 4.b.(1), “Federal funds purchased,” 4.b.(1)a, “With depository institutions in the U.S.,” 4.b.(1)b, “With others” and 4.b.(2), “Securities sold under agreements to repurchase,” 4.b.(2)a, “With depository institutions in the U.S.,” 4.b.(2)b, “With others.” The rationale for this proposed change, which deals with a funding source for branches and agencies, is essentially the same as the justification above for splitting “Federal funds sold and securities purchased under agreements to resell”.
4. Splitting item 1.f, “Trading Assets,” into separate items 1.f(1), “U.S. Treasury and Agency Securities” and 1.f(2), “Other trading assets.” The proposed breakdown would provide information on the composition of the trading assets of branches and agencies, which will enter into the derivation of weekly bank credit data used by the Board for monetary policy purposes. On November 8, 2002, the agencies published a notice soliciting comments for 60 days on proposed revisions to the Reports of Condition and Income (Call Report) (67 FR 68234). The notice includes a proposed clarification to the “Trading Account” Glossary entry on when loans can be designated as trading assets. Accordingly, the agencies are proposing the same clarification for the FFIEC 002 Trading Account “Glossary entry to achieve consistency with the proposed changes to the Call Report.

Schedule L—Derivatives and Off-Balance-Sheet Items

5. Adding Memoranda items 1.a., “Gross positive fair value,” and 1.b., “Gross negative fair value” to Memoranda item 1., “Notional amount of all credit derivatives on which the reporting branch or agency is the guarantor.” The new items would provide a better measure of credit and market risk, particularly for branches and agencies with large positions in credit derivatives. These new items will also achieve consistency with the existing Reports of Condition and Income (Call Report) filed by insured commercial banks and FDIC-supervised savings banks.
6. Adding Memoranda items 2.a., “Gross positive fair value,” and 2.b., “Gross negative fair value” to Memoranda item 2., “Notional amount of all credit derivatives on which the reporting branch or agency is the beneficiary.” The rationale for the proposed change is the same as the justification above for adding items to Memoranda item 1.

Schedule O – Other Data for Deposit Insurance Assessments

7. Modifying the captions for Memorandum items 1.a., “Deposit accounts of \$100,000 or less,” and 1.b., “Deposit accounts of more than \$100,000,” to reflect the deposit insurance limits in effect on the report date that are to be used as the basis for reporting the number and amount of deposit accounts in Memorandum item 1. Memorandum item 1, collects information on the number and amount of deposit accounts of (a) \$100,000 or less and (b) more than \$100,000. This information provides the basis for calculating "simple estimates" of the amount of insured and uninsured deposits. The captions for these memorandum items explicitly refer to \$100,000, which is the current deposit insurance limit. Given the purpose of these memorandum items, the dollar amount cited in the caption would need to be changed if the deposit insurance limit were to change. The proposed revision would ensure that such a change occurs automatically as a function of the deposit insurance limit in effect on the report date.

Schedule S – Securitization and Asset Sale Activities

8. Splitting item 2.b., “Standby letters of credit, subordinated securities, and other enhancements,” into two items, one for securitization credit enhancements that are on-balance sheet assets and another for other credit enhancements. This would be accomplished by adding a new item 2.c., “Standby letters of credit and other enhancements,” where branches and agencies would disclose the unused portion of standby letters of credit and the maximum contractual amount of recourse or other credit exposure not in the form of an on-balance sheet asset that has been provided or retained in connection with the securitization structures reported in item 1 of Schedule S. This proposed revision will enable the agencies to better understand the types of credit support that branches and agencies are providing to their securitizations, including which types are typically used for different types of securitized loans. The revisions will also achieve consistency with the changes proposed to the Reports of Condition and Income (Call Report) filed by insured commercial banks and FDIC-supervised savings banks.

Time Schedule for Information Collection and Publication

The FFIEC 002 report is collected as of the end of each calendar quarter and must be submitted by U.S. branches and agencies of foreign banks to the appropriate Federal Reserve Bank within thirty days of the report date. After the processing and editing functions have been completed, the Board sends the data to the OCC and FDIC for their use in monitoring the U.S. activities of foreign banks under their supervision. Aggregate data for all U.S. branches and agencies are published in the *Federal Reserve Bulletin* and are also used in developing flow of funds estimates and the estimates published in two Federal Reserve statistical releases, “Loans and Securities at all Commercial Banks” (G.7) and “Assets and Liabilities of Domestically Chartered and Foreign Related Banking Institutions” (H.8).

Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request. The information is provided in the form of magnetic tapes or hard copy facsimiles of the material on file. In addition, individual respondent data are also available on the FFIEC public web site at: <http://www.ffiec.gov/nic/>.

Legal Status

The Legal Division of the Board of Governors of the Federal Reserve System has determined that Section 7 of the International Banking Act of 1978 [12 U.S.C. §§353-359 and §3105(c)(2)] authorizes the Board to require the report from each U.S. agency or uninsured branch of a foreign bank that is not federally licensed. The FDIC and OCC are authorized to collect this information under the International Banking Act of 1978 (IBA) as follows:

<u>Regulatory Agency</u>	<u>Law</u>	<u>Affected Foreign Bank Branch or Agency</u>
FDIC & OCC	12 U.S.C. §§1817 (a) (1) and (3)	Each insured U.S. branch of a foreign bank, whether federally licensed or not
OCC	Section 4 of the IBA [12 U.S.C. §3102(b)]	Each uninsured federally licensed branch and each federally licensed agency of a foreign bank

The Board's Legal Division has also determined that the individual respondent information contained in Schedule M (Due from/Due to Related Institutions in the U.S. and in Foreign Countries) is exempt from disclosure pursuant to the Freedom of Information Act [5 U.S.C. §552(b)(4) and (b)(8)]. Information from all other schedules of the report is available to the public on request.

Estimate of Respondent Burden

This report is collected from the universe U.S. branches and agencies of foreign banks. The number of respondents is 295; the annual reporting burden is estimated to be 26,550 hours annually, as presented in the following table.

FFIEC 002	<i>Number of Respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current	295	4	22.50	26,550

Based on an average hourly cost of \$30, the total cost to U.S. branches and agencies of foreign banks is estimated to be \$795,500 annually. This estimate represents costs associated with recurring salary and employee benefits, and expenses associated with software, data processing, and bank records that are not used internally for management purposes but are necessary to complete the FFIEC 002 report.

Estimate of Cost to the Federal Reserve System and to the Public

The total cost to the Federal Reserve System for collecting and processing the FFIEC 002 reports is estimated to be \$500,000 annually. This amount includes the routine annual costs of

personnel, printing, and computer processing, as well as internal software development costs for maintaining and modifying existing operating programs used to edit and validate reported data.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Consultation Outside the Agency

Federal Reserve staff has consulted with representatives of the OCC and the FDIC, and the three agencies have agreed to extend, without revision, and to proceed with this request for OMB approval. In conjunction with this submission, a copy of the supporting statement is being distributed to the FDIC and the OCC.